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FAR EAST

1. Japanese official suggests economic co-operation with SEATO:



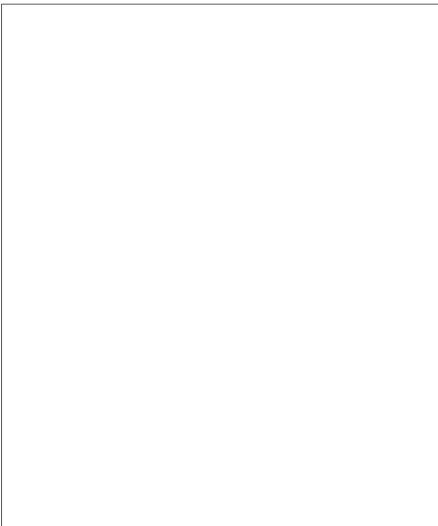
Vice Foreign Minister Okumura suggested to Ambassador Allison on 23 July that Japan could aid a Southeast Asian collective security organization by helping to raise living standards in the area. Okumura hopes Tokyo will be informed of plans and progress in developing a treaty organization, even though constitutional restrictions prevent Japan from assuming an active military role in such a grouping.

Ambassador Allison believes Okumura's offer should be used to associate Japan with plans for combating Communism in Asia and to offset the prestige the Communists gained in Japan as a result of the Indochina settlement.

Comment: The Communist success at Geneva has encouraged many Japanese conservatives to favor a policy of accommodation with Communist China.

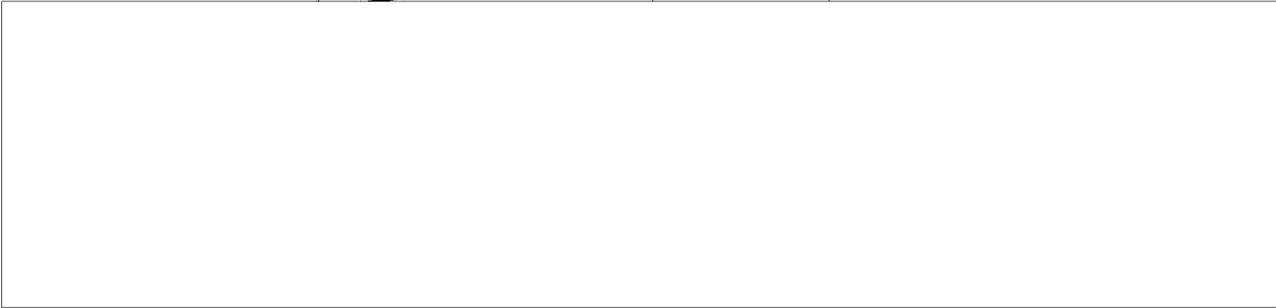


2. Comment on aggressive Chinese Communist air activity near Hainan:



It now seems quite possible that the apparent movement of piston-engine bomber and fighter planes to the new air base at Suichi on or about 20 July, and the 23 July attack on a British airliner near Hainan, were both related to attempts to provide protective air cover for Communist merchant shipping in the area.



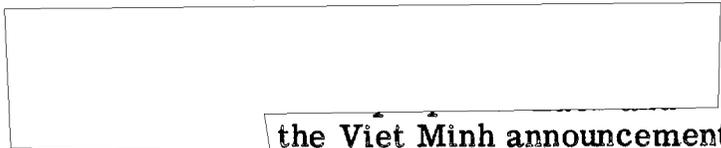


On 23 July, at the approximate time of the attack on the British airliner, the Soviet tanker Batumi was estimated to be close to Hainan and may even have alerted the attacking aircraft to the airliner's presence. The Batumi was en route to Whampoa, a port now frequently used by Soviet bloc vessels denied regular access to Shanghai by the Chinese Nationalist coastal blockade.

With the basing of aircraft at Suichi, Peiping would be able to provide some degree of air defense throughout all coastal regions, from the west coast of Korea to the Indochina border (see map, p. 5).

SOUTHEAST ASIA

3. Viet Minh to maintain "solidarity" with groups in Laos and Cambodia:

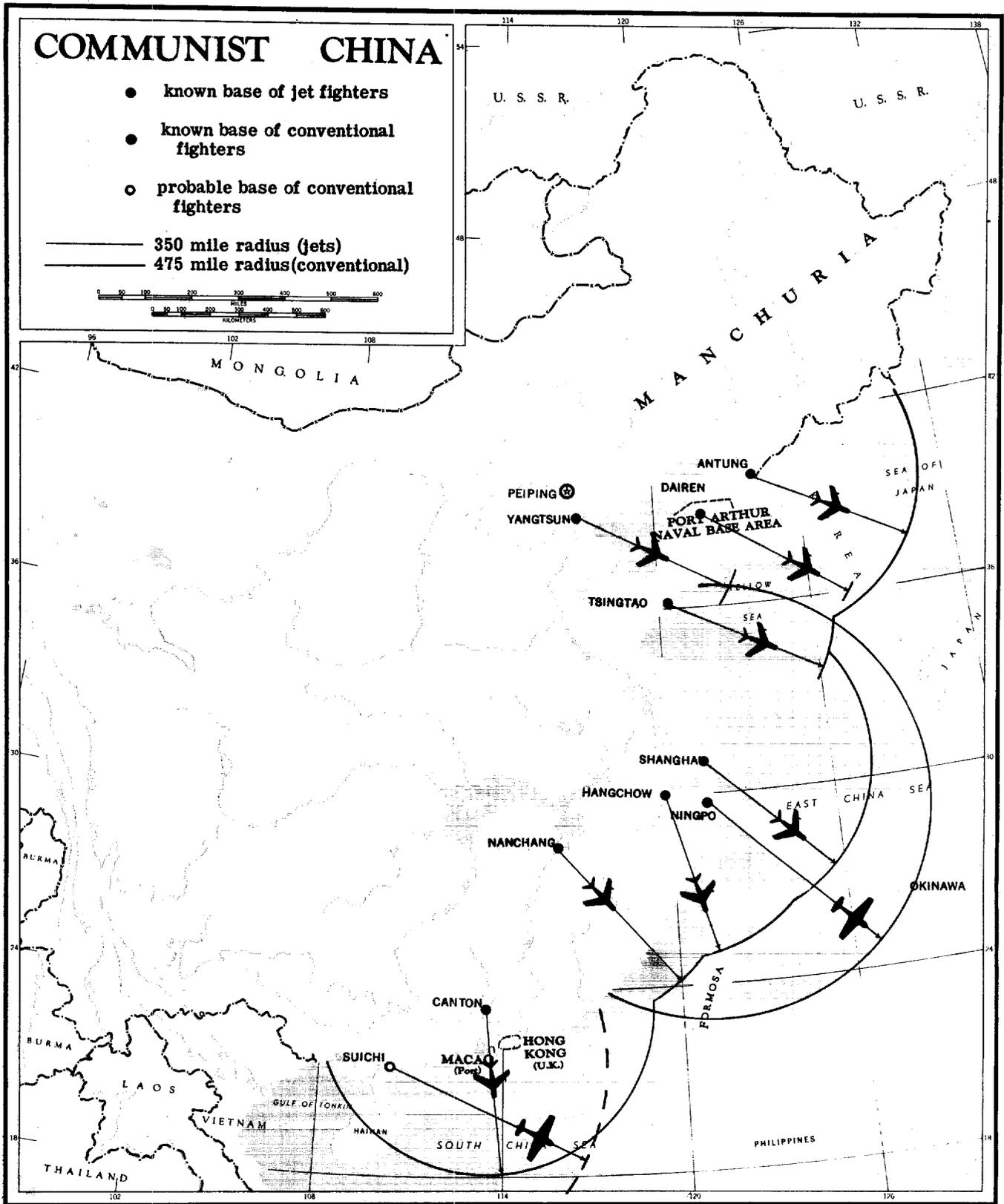


the Viet Minh announcement at Geneva ordering the withdrawal of volunteers operating alongside the liberation forces in those states was made in order to get a simultaneous cease-fire throughout Indochina. It was pointed out, however, that the "three brother nations have rights which are closely linked" and "the three nations must maintain close solidarity and carry on the struggle against the French warmongers and American interventionists."

This struggle, [redacted] was to be "carried out in the same way, irrespective of what changes might occur." [redacted] "At no time can we relax in our assistance to Cambodia and Laos. On the contrary, it is necessary to increase our assistance."

Comment: [redacted]

[redacted] Viet Minh had no intention of maintaining a hands-off policy toward Laos and Cambodia, regardless of the outcome at



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Geneva. The Viet Minh's continued solidarity with and support of the dissident forces of Laos and Cambodia would be a violation of the spirit if not the letter of Article 19 of the cease-fire agreement for Vietnam, which bars the respective zones set up in Vietnam from adherence to any military alliance.

This attitude is in line with Ho Chi Minh's statement on 22 July assuring the peoples of north, central, and south Vietnam that they "will be liberated."

4. Comment on Peiping's entertainment of former Thai premier Pridi:

 A Chinese Communist news release stating that Pridi Phanomyong, the former Thai premier, was a guest of honor at a Peiping banquet on 22 July is the first reference the Communists have made to his presence in China. He was reported to have fled to China after an attempted coup in 1949, but his whereabouts thereafter had been the subject only of unconfirmed and often conflicting reports.

Peiping is probably trying to harass the Thai government by playing on its almost pathological fear of Pridi's return. Pridi was an extremely popular leader and undoubtedly still commands a considerable, though currently ineffectual, group of adherents in Thailand.

Following so closely on Communist gains at Geneva, this attempt to exploit Pridi's name may signal the beginning of a long-range campaign to build him up for future installation as premier of a Communist-dominated Thailand. 

NEAR EAST - AFRICA

5. Iranian negotiators consider all points at issue with consortium resolved:

 Finance Minister Amini told Herbert Hoover, Jr., before Hoover's departure for London on 22 July, that the Iranian delegation

[REDACTED]

considers all major issues under negotiation with the consortium now resolved and is pleased and confident concerning the negotiations' outcome.

The consortium negotiators are similarly optimistic, although the aide memoire setting forth the agreed principles has not been put in final form. Furthermore, some legal problems remain, such as details of arbitration procedures and a determination on the code of law applicable to the contract.

In regard to the separate negotiations between London and Tehran on the compensation to be paid AIOC-- including the loss of profits since nationalization and the internal facilities not covered in the consortium talks--Ambassador Henderson reports that the Iranians have offered \$56, 000, 000. British ambassador Stevens told Henderson that, if Iran will offer as much as \$84, 000, 000, he will recommend that his government accept.

Comment: All remaining issues appear to have been resolved with the exception of the question of diplomatic protection for the consortium. This matter apparently has not been raised with the Iranian government.

Henderson and Hoover have expressed the view that Iranian agreement to pay more than \$42, 000, 000 in compensation would have serious effects in Iran because of local financial difficulties which are certain to persist even after the consortium begins operations.

6. New Iraqi cabinet likely to be formed shortly:

[REDACTED]

The new coalition cabinet being formed in Iraq will be headed by either Nuri Said or his nominee, according to the American chargé in Baghdad.

The cabinet is expected to contain five or six members of Nuri's Constitutional Union Party and three or four independents.

[REDACTED] personal opposition, Fadhil Jamali, the present foreign minister, is not expected to be in the new cabinet.

This cabinet will probably take office sometime after Nuri's return from Europe in ten days.

[redacted] Comment: Nuri [redacted] did not "feel able to work with the new government" because of the results of the 9 June elections. Thereafter the politically powerful crown prince went to Europe to see Nuri, and their discussions may account for Nuri's apparent willingness to co-operate now.

Nuri's support raises hope that a strong coalition government may be achieved and that Iraq may then adhere to the Turkish-Pakistani pact. [redacted]

WESTERN EUROPE

7. Rome voices conditional support of Balkan pact:

[redacted]

High officials of the Italian Foreign Ministry also told the American embassy on 22 July that Italy will not oppose signing of the Balkan alliance, provided (1) that it receives assurances from SHAPE that military planning aspects of that pact will harmonize with those of NATO, (2) that commitments under the pact are no stronger than the consultative type of commitment of NATO, and (3) that Greece's and Turkey's commitments are reciprocated by Yugoslavia.

The officials said, however, that Italy cannot take a position on adherence to the pact until the government has studied its provisions and Rome-Belgrade relations become

"more normal." They said Italy could not become a founding member for various reasons, particularly the difficulty of getting parliamentary approval prior to a Trieste solution and the need for pushing EDC against heavy Communist opposition.

8. Ambassador Matthews foresees worsening Dutch-American relations:

[redacted] Ambassador Matthews reports that the Dutch are shocked and angered as a result of American support of Thai prince Wan, instead of the Dutch candidate, Van Kieffens, for president of the Ninth UN General Assembly. The American decision, Matthews states, will be viewed by the Dutch as confirmation that Washington's policies are "shifting and uncertain" and will strengthen the growing Dutch anxiety over American leadership. The Dutch may feel compelled to show the United States that it is a mistake to take their friendship and support for granted.

Comment: Van Kieffens bowed out of the race for president of the General Assembly last year under the impression that American support for his candidacy could be expected this year.

In recent months, Dutch-American relations have worsened, partially because of The Hague's annoyance with what it considered American support of Indonesia. One of the ways in which the Dutch are most likely to show their dissatisfaction would be by reactivating close co-operation with Scandinavia in order to obtain greater leverage vis-a-vis American policy.

LATIN AMERICA

9. Castillo Armas reports friction developing in Guatemalan junta:

[redacted] Guatemalan junta president Castillo Armas told Ambassador Peurifoy on 22 July that he seriously distrusted Colonel Monzon, one of his two colleagues on the junta.

Castillo said he believed Monzon was trying to profit from the current unsettled conditions and was permitting dissemination of the

idea that the army would be justified in seeking revenge for its "humiliating defeat" by Castillo's rebel forces.

Castillo, who apparently fears that Monzon might influence junta member Major Oliva, indicated that he may be considering eliminating Monzon from the junta.

The embassy has no evidence to support Castillo's suspicions and notes that rumors of friction between the two colonels, previously denied by Castillo, have apparently originated with Castillo's followers.

Comment: Ultimate political power in Guatemala rests with the army, and Castillo must consolidate his control of it if his position is to be secure. Monzon headed one of the short-lived juntas formed after Arbenz' ouster and is the only representative of the regular army on the present junta. Unless he were replaced by another officer who had the confidence of the army, his elimination would weaken Castillo's current tenuous hold over the army.